Department of Business Regulation
Insurance Division
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Consumer Alert 2016-3

LIFE INSURANCE ROADMAP
Understanding a life policy at different life stages

Life insurance may seem like something you only need to think about at a certain age. However, these policies offer various benefits that may be useful at different life stages. Life insurance can be a risk management tool or an investment, depending on the type of policy. If you have a policy, it's important to review it with your agent every few years to keep up with changes in your family status, income and needs. Rhode Island Superintendent of Insurance Elizabeth Kelleher Dwyer and the National Association of Insurance Commissioners (NAIC) offer these tips to help you learn more about life insurance.

Life Insurance Basics

Life insurance can provide financial protection for loved ones should the policyholder unexpectedly die. It comes in two main forms: term insurance and whole life insurance.

Term life insurance will pay out if you die during the policy term. This type of policy may be appropriate if you are the primary wage earner for your family or if your spouse relies on you to pay the mortgage. Term policies are typically written for 1, 5, 10 or 20 years. This type of life insurance is typically less expensive in your younger years than permanent forms of life insurance such as whole life.

Whole life insurance (also known as permanent life insurance) policies build cash value and pay a death benefit, and are more expensive than term life insurance policies. The cash value is the accumulation of premiums collected minus expenses and charges.

If you can't afford whole life insurance right now but think you may want it in the future, you may want to consider term life insurance with a conversion option that will let you change to a whole life policy for a fee later.

Under 18

Buying life insurance policies for children used to be quite common. However, many people now opt for college saving funds instead.

Historically, purchasing a life insurance policy for a child was intended to pay for the burial expenses if that child passed away prematurely. More recently, life insurance policies for children are marketed as investments. However, even though the policy grows in value each year, it may not be the best investment vehicle to meet your needs.

Young Adults

Twenty-somethings are one of the groups least likely to purchase life insurance. If you have a full-time job, your employer might offer life insurance. These policies typically cover income replacement equal to your salary for a year or two.

However, that amount may not begin to cover a mortgage or student loan debt. If you pass unexpectedly and someone has co-signed a loan for you, they are responsible for your debt. A policy that covers the amount owed to lenders can protect loved ones from your financial burden if something happens.

If you think you need additional coverage, term life insurance is low-cost and covers you for a set period of time. A twenty year policy can cover you while you build a family. Average policies run around $160 a year for a twenty year term with $250,000 coverage for a healthy 30-year-old. Conversely, permanent life insurance costs more than term but will cover you for life and provide an investment component.

If you have a whole life policy with cash value, you can borrow money from it up to the amount of the surrender or loan value. Do this with caution as the amount you borrow from the life policy reduces the amount your beneficiaries will receive if you die. Unlike a conventional loan, you don’t have to pay a policy loan back. However, you will be charged interest. Do your research to make sure you know the actual cost of borrowing from your whole life policy.

Established Adults

As an established adult in your 40s or 50s, you may be paying for your children’s college and looking for more coverage. However, if your house is paid off and your kids are financially independent, you may not need coverage. As you get older, life insurance becomes more expensive. Reach out to different insurers to see what the most affordable premium would be for your needs.

You can also consider purchasing more coverage through your employer sponsored policy. If you know you’ll be retiring in the next few years, start to look for other policies as you’ll lose coverage if your job situation changes. You can also see if you can transfer the policy when you do retire.

Also consider if you have alternatives to life insurance, such as savings accounts or other investments that can help take care of funeral and burial expenses. You may find you no longer need as much, or any, life insurance as you age.

Retired

If you have retired, you will no longer be covered by a previous employer's term life insurance policy.

Make sure to update your beneficiaries. If you've been widowed or decide to make a grandchild a beneficiary, contact your company to designate a new beneficiary. Also, make sure to provide the beneficiary with your policy information including the company and policy number.

More Information

Don't be a victim of insurance fraud! Before you give out any personal information (like your social security number or bank information), sign a contract or write a check for coverage, STOP. CALL your state insurance department and CONFIRM that the individual and/or company you are working with are licensed to do business in Rhode Island. You can also check the status of an individual or insurer by visiting our website at www.dbr.ri.gov. Consumers are also welcome to contact the Rhode Island Insurance Division at 401-462-9520 or email dbr.insurance@dbr.ri.gov for assistance.

About the RI Insurance Division

The mission of the Rhode Island Insurance Division is to assist, educate and protect Rhode Islanders through the implementation and enforcement of state laws mandating regulation and licensing of the regulated industries while recognizing the need to foster a sound business environment in the state. We are also committed to treating everyone who comes before us fairly, efficiently and with respect. Please visit our website to obtain additional consumer information and alerts issued by the Rhode Island Insurance Division.

About the NAIC

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S. For more information, visit www.naic.org.

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